



USFR MEMORANDUM NO. 196

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education

DATE: February 7, 2003

SUBJECT: Impact of Governmental Accounting Standards Board (GASB) Statement No. 34 on Capital Assets

Districts that prepare financial statements are required to prepare those statements in accordance with generally accepted accounting principles, including governmental accounting standards established by GASB. GASB Statement No. 34—*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* established a new reporting model for state and local governments, including school districts. The new reporting model requires financial statements to be prepared on both a government-wide and fund basis.

As shown below, the requirements of GASB Statement No. 34 are being phased in over a three-year period based on each district's fiscal year (FY) 1998-99 total revenues (not other financing sources) for all funds, excluding extraordinary items.

<u>FY 1998-99 Revenue</u>	<u>Year of Implementation</u>
\$100 million or more	FY 2001-2002
\$10 million or more, but less than \$100 million	FY 2002-2003
Less than \$10 million	FY 2003-2004

The requirements of GASB Statement No. 34 do not affect districts that do not prepare financial statements. If such districts are required to prepare financial statements in the future due to increased expenditures of federal money or changes in law, the requirements of GASB Statement No. 34 would then apply. However, the revised capital asset threshold described in this memo applies to all districts.

Accounting for Capital Assets Under GASB 34

The government-wide statements are prepared on the economic resources, full accrual basis of accounting, rather than the current financial resources, modified accrual basis used for the governmental fund statements. In order to report on an economic resources focus, districts must calculate depreciation on certain capital assets (e.g., buildings, land and building improvements, and equipment, including vehicles). Land, land improvements that produce a permanent benefit (e.g., fill and grading costs), and construction in progress are not depreciated. In order to provide

a reasonable basis for depreciation and to avoid multiple capitalization thresholds, we have increased the dollar threshold for equipment items that must be placed on the capital assets list (whether purchased, constructed, or donated) from \$1,000 to \$5,000 based on the Government Finance Officers Association recommended level. Districts may use a lower threshold if adopted by their governing board.

GASB Statement No. 34 requires governments to report depreciation by function in the government-wide financial statements. In order to include this information, districts should track certain data for all depreciable capital assets. In addition to the information required by the *Uniform System of Financial Records* (USFR) on pages VI-E-2 and 3, districts should track the useful life, residual value, and annual and accumulated depreciation amounts for all depreciable assets. Districts should also track the function that uses the asset. The function for depreciation is based on the use of the asset rather than the coding used for the original acquisition (e.g., buildings are depreciated to the function they serve such as 1000—Instruction rather than function 4000—Facilities Acquisition and Construction Services used at the time of acquisition). Districts should review the function for depreciation when an asset's use is changed. Districts may maintain additional information required for depreciation in the same format as the capital assets list or include it in a separate depreciation schedule that is cross-referenced to the capital assets list.

Districts should continue recording the purchase of capital assets in accordance with the USFR Chart of Accounts as an expenditure in the year of acquisition. Districts should report these expenditures in the fund financial statements, and they must be within the district's budget limits. To prepare the government-wide statements, an audit adjustment to reclassify the expenditures recorded in the year of acquisition as capital assets, is necessary. Likewise, an adjustment to the government-wide financial statements is necessary to add depreciation expense for the applicable capital assets based on the function the asset serves. Districts that previously maintained balance sheet accounts and recorded the purchase of a capital asset in the General Fixed Asset Account Group (GFAAG) should note that GASB Statement No. 34 eliminated the GFAAG and the General Long-Term Debt Account Group, and therefore, this entry is no longer necessary.

Stewardship Requirements

In addition to the requirement that districts maintain a capital asset list as described in the USFR section VI-E, to help safeguard and control significant equipment items costing less than \$5,000 (or the capital asset threshold the governing board adopted if less than \$5,000), districts must also maintain a stewardship list for all equipment, including vehicles, with a cost of \$1,000 or more but less than the capital asset threshold. The stewardship list must include the item's description, identification number (tag number), location, and the month and year of acquisition. Physical inventory requirements described in the USFR apply to items on both the capital assets list and stewardship list. Likewise, both lists should be updated annually for additions and disposals.

If you have questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.